Washington – In response to the worst foreclosure crisis in decades and record defaults on Federal Housing Administration (FHA) loans, Congresswoman Melissa Bean joined colleagues to pass the *FHA Reform Act of 2010* (H.R. 5072) today by a vote of 406 to 4. The final legislation included a Bean-authored amendment that strengthens the bill by requiring the FHA to annually consider increases to the minimum downpayment following a regular, comprehensive analysis.

"After an historic crisis in the mortgage market, our system needs comprehensive reform," Bean said. "This legislation secures the future of this vital program while giving regulators better tools for attacking fraud and ensuring that taxpayers aren't left on the hook for fraudulent mortgages and irresponsible lending."

The *FHA Reform Act* will reduce federal spending and save taxpayers $2.5 billion over five years, responding to the foreclosure crisis and its effects on the FHA reserve fund, which fell below the two percent level required in law. The Act will allow the FHA to improve its financial position by adjusting its premium structure for new borrowers, while still providing affordable mortgage insurance for the first-time buyers that the FHA serves.

FHA has helped 37 million Americans attain homeownership since 1934 and has provided crucial mortgage insurance at times when the private market has pulled back from the mortgage market. In exchange for a government guarantee, funded by fees on borrowers, lenders offer mortgages with smaller downpayment requirements, providing first-time homebuyers access to a mortgage on affordable terms.

H.R. 5072 also provides FHA with enhanced authority to terminate lenders' approval to originate or underwrite loans backed by FHA insurance when FHA finds evidence of fraud or noncompliance. The legislation requires FHA to improve its internal reporting systems to better manage risk and to provide transparent data to the public and to Congress. This includes improving monitoring of early defaults and claims, tracking mortgage information by loan servicer, providing FHA with the ability to contract out for additional credit risk analysis, requiring mortgagees to report to FHA when they stop buying loans from other mortgagees and requiring a Government Accountability Office study on FHA and Ginnie Mae. The bill also creates a new Deputy Assistant Secretary at FHA for Risk Management and Regulatory Affairs..

Bean’s amendment, which passed by voice vote with bipartisan support, requires the Dept. of Housing and Urban Development (HUD), which oversees FHA, to give Congress an annual comprehensive report of the effect higher FHA downpayment requirements would have on the FHA’s guarantee fund and on the housing market. HUD is then required to consider the findings of these annual reports in determining whether higher minimum downpayment requirements are warranted. In addition, the amendment grants greater authority to HUD to establish higher minimum downpayment requirements for all borrowers or classes of borrowers, such as those with low credit scores. It directs HUD to consider a borrower’s credit score when deciding whether to require a higher minimum downpayment requirement.

Combined, this amendment mandates HUD to annually reevaluate the minimum downpayment requirement, which will ensure the federal government is effectively protected from unnecessary risk.

“We learned from the current mortgage crisis that the FHA needs the data and the flexibility to address changes in today’s more dynamic and diverse mortgage market and to protect taxpayers,” Bean said.

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